

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 PA-01 PRS-01 EA-07 SIL-01 LAB-04 /126 W

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R 181233Z NOV 76

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 74

INFO AMEMBASSY BONN

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY PRAGUE

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: ENRG IR

SUBJ: GAS: IGAT II

REF: (A) TEHRAN 7776(NOTAL); (B) PRAGUE 3310(NOTAL)

BEGIN UNCLASSIFIED: 1. LOCAL PRESS HAS REPORTED AND THE NATIONAL IRANIAN GAS COMPANY (NIGC) HAS CONFIRMED THAT IRANIAN AND CAECHOSLOVAKIAN OFFICIALS SIGNED AN AGREEMENT IN PRAGUE ON NOV 12 FOR THE SALE BY IRAN OF 3.6 BILLION CUBIC METERS/YEAR OF NATURAL GAS. THUS CZECHOSLOVAKIA WILL JOIN WEST GERMANY, FRANCE AND AUSTRIA IN THE TRILATERAL SWITCH DEAL SIGNED BY IRAN WITH THOSE COUNTRIES AND THE USSR IN FEBRUARY 1975. TOTAL IRANIAN ANNUAL GAS DELIVERIES TO THE RUSSIAN BORDER BY IGAT-II (SECOND IRANIAN GAS TRUNKLINE) WILL BE 17 BILLION CUBIC METERS/YEAR AND

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ARE SCHEDULED TO BEGIN IN JANUARY 1981, WITH A THREE YEAR

BUILD-UP. MOREOVER, 10 BILLION CUBIC METERS/YEAR OF GAS WILL BE TRANSMITTED BY IGAT-II TO VARIOUS IRANIAN CITIES ALONG THE PIPELINE ROUTE FOR DOMESTIC CONSUMPTION. DOMESTIC DELIVERIES ARE ALSO SCHEDULED TO BEGIN IN JANUARY 1981, BUT PLANS CALL FOR AN EIGHT YEAR BUILD-UP.

2. PROJECT COST OF IGAT-II IN 1975 PRICES AND WITHOUT ALLOWANCE FOR INTEREST CHARGES IS EXPECTED TO BE \$2.5 BILLION. \$1.5 BILLION IS ALLOCATED FOR MATERIAL AND EQUIPMENT (LARGELY IMPORTED) WHILE \$1 BILLION IS EXPECTED TO BE NEEDED FOR ENGINEERING SERVICES AND CONSTRUCTION COSTS. FOREIGN COMPONENT OF ENGINEERING AND CONSTRUCTION WILL ALSO BE VERY HIGH SINCE NIGC RECOGNIZES THE NEED TO RELY HEAVILY ON FOREIGN SKILLED LABOR -- SPECIFICALLY INCLUDING EVEN WELDERS. THE PROJECT CONSISTS OF 1) GAS GATHERING SYSTEM AND GAS TREATING PLANT NEAR KANGAN, 2) PIPELINE OF APPROXIMATELY 1,400 KM LENGTH AND DIAMETER OF BETWEEN 48 AND 56 INCHES, AND RELATED COMPRESSOR AND METERING STATIONS, 3) INFRASTRUCTURE SUCH AS HOUSING, ROADS, ETC AT KANGAN AND ALONG THE TRANSMISSION SYSTEM, AND 4) A TELECOMMUNICATION, TELEMETRY AND SUPERVISORY CONTROL SYSTEM.

3. NIGS PLANS TO FINANCE ALL IMPORTED MATERIAL AND EQUIPMENT WITH SUPPLIERS CREDITS. CONSEQUENTLY, POTENTIAL US SUPPLIERS WILL BE REQUIRED TO COMPETE ON FINANCING TERMS AS WELL AS PRICE, TECHNICAL SPECIFICATIONS, DELIVERY SCHEDULES, ETC. EMB HAS BEEN UNABLE THUS FAR TO DETERMINE IF OR TO WHAT DEGREE USSR WILL HAVE INSIDE TRACK ON PROVIDING EQUIPMENT BUT WE WILL CONTINUE TO FOLLOW. COST OF ENGINEERING SERVICES AND CONSTRUCTION WILL REPORTEDLY BE PAID FOR BY IRAN FROM ITS CURRENT INCOME.

4. SIGNIFICANT PURCHASES MADE THUS FAR IN CONNECTION WITH IGAT-II ARE 2 NEW PIPE MILLS (ONE FROM TORRANCE AND THE OTHER FROM KAISER) AND NIGC HAS ALSO CONTRACTED WITH SUPPLIERS FROM JAPAN, WEST GERMANY AND ITALY FOR STEEL PLATES (TOTAL COST OF STEEL FOR PIPE WILL REPORTEDLY APPROACH \$350 MILLION. LARGE ADDITIONAL PURCHASES ARE NOT EXPECTED UNTIL NIGC'S CONTRACTOR FOR MATERIAL PROCUREMENT HAS BEEN SELECTED, HAS PREPARED SPECIFICATIONS, AND INVITES BIDS.

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5. AS WILL BE RECALLED, SNAMPROGETTI/SOFREGAZ WAS AWARDED CONTRACT FOR DETAILED DESIGN AND ENGINEERING OF IGAT-II IN JUNE 1976. NIGC IS NOW STUDYING TENDERS SUBMITTED BY FIRMS COMPETING FOR CONTRACTS FOR 1) MATERIAL PROCUREMENT AND HANDLING, 2) SUPERVISION AND INSPECTION, AND 3) PROJECT MANAGEMENT. NIGC MAY AWARD CONTRACT FOR ALL THREE SERVICES TO SAME FIRM OR IT MAY COMBINE MATERIAL PROCUREMENT

AND SUPERVISION AND INSPECTION IN ONE CONTRACT AND AWARD PROJECT MANAGEMENT TO ANOTHER FIRM. EVALUATION OF TENDERS AND SELECTION OF CONTRACTOR(S) SHOULD BE MADE WITHIN NEXT MONTH OR TWO ACCORDING TO NIGC. EMB IS INFORMED THAT WILLIAMS BROTHERS' ENGINEERING AND BUTLER AND CULVER ARE ONLY TWO US FIRMS THAT RESPONDED TO INVITATION TO TENDER. WE DO NOT KNOW WHO THE COMPETITORS ARE, BUT NIGC OFFICIAL DID SAY THAT NEITHER SNAMPROGETTI NOR SOFREGAZ WERE INVOLVED SINCE NIGC DID NOT INTEND TO PUT "ALL ITS EGGS IN ONE BASKET." END UNCLASSIFIED.

BEGIN LIMITED OFFICIAL USE: 6. THERE ARE CONFLICTING REPORTS REGARDING THE LIKELIHOOD THAT THE JANUARY 1981, DEADLINE FOR COMMENCEMENT OF GAS DELIVERIES TO ASTARA ON RUSSIAN BORDER WILL BE MET. DESPITE OFFICIAL OPTIMISM, IT IS OBVIOUS THAT THE PROJECT IS ON A VERY TIGHT SCHEDULE. ACTUAL CONSTRUCTION OF THE PIPELINE AND RELATED FACILITIES IS NOT SUPPOSED TO BEGIN UNTIL EARLY 1978, BUT FEW INFORMED SOURCES IN TEHRAN (OTHER THAN NIGC OFFICIALS) EXPECT CON- TO BEGIN THAT SOON. ONE KEY BOTTLENECK PREDICTED BY MANY IS PIPE DELIVERIES. THE AHWAZ PIPE MILLS HAVE NO EXPERIENCE IN ROLLING VERY LARGE DIAMETER PIPE, THEY WILL BE USING HIGH TENSILE, BRITTLE STEEL THAT IS DIFFICULT TO WORK, AND THE NEW MILLS WILL LIKELY FACE START-UP DIFFI- CULTIES COMMON TO MOSST LARGE, NEW INDUSTRIAL PLANTS.

7. ANOTHER PROBLEM WHICH MUST BE RESOLVED SOON IF IGAT-II IS TO BE FINISHED ON SCHEDULE IS QUESTION OF WHO WILL DEVELOP THE GAS FIELDS NEEDED FOR THE PROJECT AND UNDER WHAT CONDITIONS. AT ONE TIME, THE OFF-SHORE PARS FIELD (FORMERLY CALLED C STRUCTURE) WAS BEING CONSIDERED AS THE SOURCE OF THE GAS NEEDED BY IGATT-II. HOWEVER, SINCE THEN THE ESTIMATED PROBABLE RESERVES OF PARS FIELD HAVE BEEN LIMITED OFFICIAL USE

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REVISED DOWNWARD FROM 220 TRILLION CUBIC FEET TO A LEVEL OF 50 TRILLION CUBIC FEET OF PROVEN RESERVES AND 75 TRILLION CUBIC FEET OF PROBABLE RESERVES. MOREOVER, MUCH OF THE PARS FIELD GAS IS RESERVED FOR A PLANNED LNG PRO- JECT AND IT MAY ALSO BE USED FOR GAS INJECTION INTO OIL RES- DERVOIRS. NIGC NOW INTENDS TO USE GAS FROM THE KANGAN AND NAR FIELDS WHICH WERE DISCOVERED BY EGOCO (EUROPEAN GROUP OF OIL COMPANIES). THREE WELLS EACH WERE DRILLED BY EGOCO ON KANGAN AND NAR WHICH PROVED THE EXISTENCE OF VERY LARGE GAS RESERVES. EMB HAS BEEN UNABLE TO OBTAIN ANY SPECIFIC ESTIMATES ON RESERVES, BUT IS INFORMED THAT RESERVES ARE CERTAINLY EXCESS TO REQUIREMENTS OF IGAT-II.

8. DEVELOPMENT DRILLING HAS STOPPED BECAUSE OF A DISPUTE

BETWEEN EGOCO AND IRAN OVER CONTRACTUAL TERMS. EGOCO APPARENTLY MAINTAINS THAT IT IS ENTITLED TO CONTINUE DEVELOPING ITS DISCOVERIES AND TO SHARE IN THE EARNINGS GENERATED BY SALE OF THE GAS. NIOC/NIGC APPARENTLY MAINTAIN THAT EGOCO IS NOT IN A POSITION TO EXPLOIT ITS DISCOVERIES (I.E. BUY THE GAS) AND THAT IGAT-II IS A PROJECT IN WHICH EGOCO HAS NO INTERESTS. EMB HAD HEARD RUMOR THAT GISCARD D'ESTAING RAISED ISSUE DURING HIS OCTOBER OFFICIAL VISIT TO IRAN AND THAT FRENCH PRESIDENT RECEIVED ASSURANCES THAT EGOCO (E.R.A.P. WITH 32 PERCENT INTEREST IS LARGEST SINGLE PARTICIPANT) WOULD BE PERMITTED TO DEVELOP THE GAS FIELDS IT HAD DISCOVERED. THIS AGREEMENT, IF IN FACT IT WAS REACHED, HAS OBVIOUSLY HIT A SNAG. NIGC OFFICIALS WITH OPERATIONAL RESPONSIBILITY FOR IGAT-II ARE VERY CONCERNED THAT CONTINUED WRANGLING WITH EGOCO WILL CAUSE DELAYS THAT CANNOT BE MADE-UP. END LIMITED OFFICIAL USE.  
HELMS

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